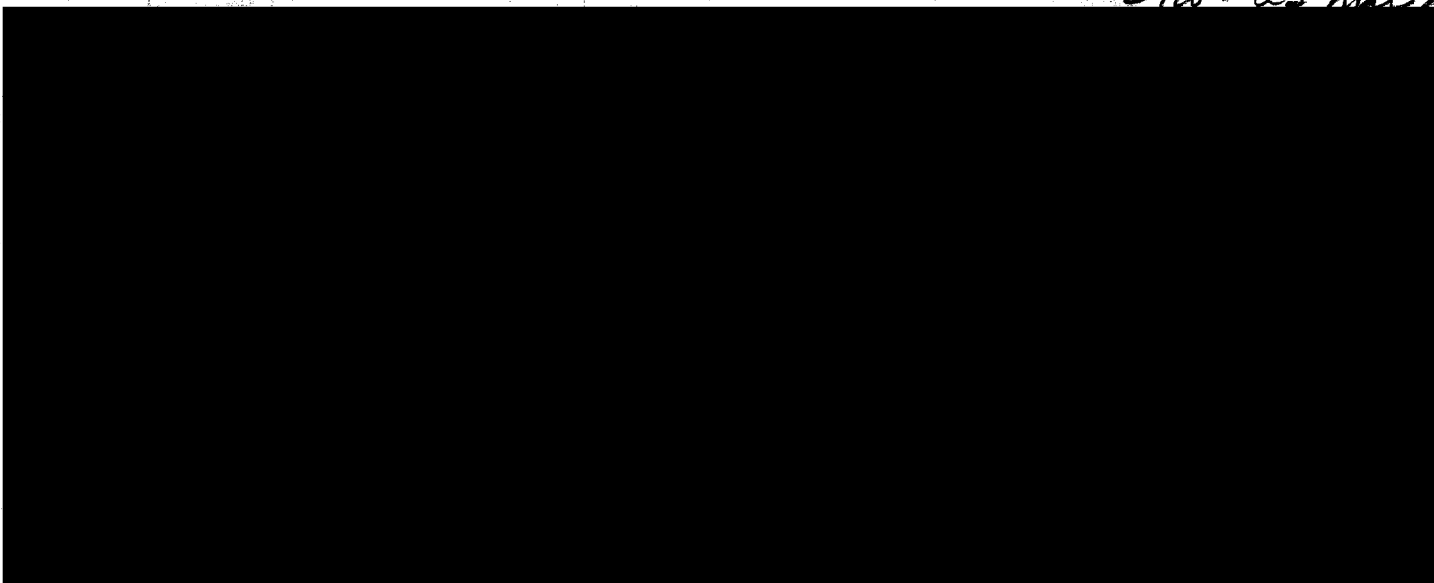


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EIW - 23 March 78



ONE ARTICLE FROM OER'S ECONOMIC INTELLIGENCE WEEKLY REVIEW
ENDING 23 MARCH 1978.

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UNCTAD MEETING GLOSSES OVER NORTH-SOUTH DIFFERENCES.

1. TO THE SURPRISE OF MOST OBSERVERS, THE MEETINGS OF THE UNCTAD TRADE AND DEVELOPMENT BOARD ON 6-11 MARCH CULMINATED IN A RESOLUTION ON LDC DEBT AND DEVELOPMENT THAT DREW PLAUDITS FROM REPRESENTATIVES OF THE DEVELOPED AND MOST OF THE DEVELOPING COUNTRIES. THE RESOLUTION:
SETS OUT PRINCIPLES FOR TREATING INDIVIDUAL DEBT PROBLEMS AND OMMITS DONOR COUNTRIES TO CONSIDER MEASURES TO ADJUST TERMS OF PAST AID LOANS OR TAKE OTHER EQUIVALENT ACTIONS TO IMPROVE ASSISTANCE FLOWS.

ALLS FOR THE CREATION OF AN INTERGOVERNMENTAL GROUP OF EXPERTS TO RECOMMEND FEATURES OF FUTURE OPERATIONS REGARDING LDC DEBT.

ACKNOWLEDGES THAT THERE WILL BE FURTHER PLENARY REVIEW OF THE DEBT QUESTION AT UNCTAD SESSIONS IN EARLY 1979.

THIS LOW-KEY FORMULATION CONTRASTS MARKEDLY WITH PAST STRIDENT DEMANDS OF THE LDC LEADERSHIP FOR UNIVERSAL DEBT RELIEF.

2. WE BELIEVE THAT THE UNCTAD RESOLUTION PAPERS OVER PERSISTENT DIFFERENCES WITHIN AND BETWEEN THE TWO GROUPS AND THAT THESE COULD EASILY REEMERGE IN FURTHER EXCHANGES. THE CURRENT CONSTRUCTIVE PHASE, WHICH WILL PROBABLY LAST AT LEAST UNTIL THE UNCTAD PREPARATORY MEETING OF JANUARY 1979, IS BASED ON AN UNUSUAL CONVERGENCE OF SEPARATE INTERESTS IN THE NORTH-SOUTH DIALOGUE.

AS A GROUP, THE DEVELOPED COUNTRIES APPRECIATE THE WILLINGNESS OF THE LDCS TO AVOID RHETORIC AND TO STICK TO TECHNICAL DISCUSSIONS ON THE

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DEBT ISSUE.

DEVELOPING COUNTRY LEADERSHIP WAS TRYING TO APPEAR AS COOPERATIVE AS POSSIBLE TO ENCOURAGE UNILATERAL ADJUSTMENTS BY DONORS OF DEBT TERMS (OR OTHER DEBT-RELATED ACTIONS), SEVERAL OF WHICH HAVE ALREADY TAKEN PLACE OR HAVE BEEN PROPOSED.

DEBT AT THE UNCTAD MEETING.

3. NO SUBSTANTIAL AGREEMENT WAS REACHED ON THE PROPOSALS THAT PREVIOUSLY HAD CONSTITUTED THE BASIS OF GROUP POSITIONS. THE DEVELOPING COUNTRIES HAD CALLED FOR GENERALIZED DEBT RELIEF AND FOR THE ESTABLISHMENT OF GUIDELINES THAT WOULD LINK ELIGIBILITY WITH DC DEVELOPMENT GOALS. THE DEVELOPED COUNTRIES HAD TABLED A PROPOSAL AT LAST SPRING'S CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION (CIEC) THAT LAID OUT FEATURES TO GUIDE THE TREATMENT OF INDIVIDUAL DEBT PROBLEMS AND HAD SUGGESTED PROCEDURES TO PROVIDE ADDITIONAL EXTERNAL SUPPORT FOR LOW-INCOME LDCS EXPERIENCING CHRONIC BALANCE-OF-PAYMENTS PROBLEMS OF WHICH DEBT IS AN ELEMENT. AS ANTICIPATED, THE LDCS STILL WERE UNABLE TO ACCEPT THE CIEC PROPOSAL. THEY COULD NOT, HOWEVER, AGREE AMONG THEMSELVES ON RENEWING EARLIER DEMANDS FOR GENERALIZED DEBT RELIEF AND, SPURRED BY OPPOSING PRESSURES WITHIN THE GROUP, APPROVED A CAREFULLY WORDED COMPROMISE, ACCEPTABLE TO DEVELOPED COUNTRIES.

4. THE RESOLUTION, ADOPTED BY CONSENSUS, REFLECTS FAIRLY BROAD ACCEPTANCE BY DONOR COUNTRIES OF THE PRINCIPLE OF RETROACTIVE TERMS ADJUSTMENT, ACKNOWLEDGES THAT SOME INDIVIDUAL LDCS SUFFER DEBT PROBLEMS AND PROVIDES FOR FUTURE REVIEW OF ACTIONS TAKEN UNDER THE RESOLUTION. ON THE OTHER HAND, IT LENDS SOME SUPPORT TO THE DEVELOPED COUNTRIES' COMMITMENT TO CASE-BY-CASE EVALUATION OF DEBT SITUATIONS, DISTINGUISHES BETWEEN DEBT CRISES AND CASES CALLING FOR LONGER TERM MEASURES, AND COMMITS DONORS ONLY TO SEEK AN IMPROVEMENT IN NET FLOWS OF OFFICIAL DEVELOPMENT ASSISTANCE (ODA). MOST DONOR COUNTRIES HAVE STRESSED THAT TERMS ADJUSTMENT IS AN AID ENHANCEMENT, NOT A DEBT RESCHEDULING DEVICE, AND THAT BENEFICIARIES WOULD BE DETERMINED WITHIN THE CONTEXT OF DONOR COUNTRY AID PROGRAMS. THE FAVORABLE DONOR COUNTRY POSITION ON TERMS ADJUSTMENT WAS A FACTOR IN LDC ACCEPTANCE OF THE BASIC CONCEPTS FOR DEALING WITH FUTURE DEBT PROBLEMS OF INDIVIDUAL NATIONS. WHILE THE CONCEPTS ARE MODEST, AND IN SOME CASES SELF-EVIDENT, THEY REPRESENT A DEPARTURE FROM WHAT UP TO NOW HAD BEEN A STERILE NORTH-SOUTH DEBATE.

FACTORS UNDERLYING THE JOINT RESOLUTION.

5. THE GROUNDWORK FOR CONCILIATION IN BOTH CAMPS WAS LAID BY: LDC DIFFERENCES. SINCE THE ORIGINAL DEMANDS OF THE MANILA

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DECLARATION OF JANUARY 1976 THE G-77 HAS SUCCESSIVELY MODIFIED ITS DEBT PACKAGE IN ATTEMPTS TO STRENGTHEN AN ELUSIVE CONSENSUS. SUPPORT FOR THE PACKAGE VARIES FROM MODERATE ENDORSEMENT BY INTERESTED AFRICAN AND SOUTH ASIAN COUNTRIES TO OPEN HOSTILITY FROM THE LATIN AMERICAN GROUP AND OTHERS WHO FEAR FOR THEIR CREDIT STANDING IN CAPITAL MARKETS. SOME OF THE POORER COUNTRIES THAT STAND TO GAIN FROM INITIAL STEPS TOWARD DEBT RELIEF ARE NO LONGER WILLING TO MAINTAIN UNREALISTIC POSTURES SUCH AS THOSE OF THE G-77 IN DEBT DISCUSSIONS AT THE CIEC. IN ADDITION, MANY COUNTRIES ARE DIRECTING THEIR ENERGIES TOWARD OTHER NORTH-SOUTH ISSUES, SUCH AS THE SUSPENDED COMMON FUND TALKS, RECOGNIZING THAT POLITICAL AND ECONOMIC GAINS FROM THE DEBT DISCUSSIONS MAY NOT MEET EARLIER EXPECTATIONS. STEPPED-UP PRESSURES FROM SUCH DISAFFECTED PARTICIPANTS AT UNCTAD MEETINGS IN DECEMBER AND JANUARY SHIFTED THE FOCUS OF G-77 LOBBYING TOWARD GENERALIZED RELIEF ONLY OF OFFICIAL ODA DEBT FOR THE POOREST LDCs. THIS SHIFTAINED MOMENTUM BECAUSE THE CHAIRMAN OF THE MEETING (SRI LANKA) AND MAJOR SPOKESMEN FOR THE G-77 (PAKISTAN, ZAIRE, AND EGYPT) PRIVATELY OPPOSED MORE SWEEPING DEMANDS.

MOVES BY DEVELOPED COUNTRIES. RECENT ACTION BY INDIVIDUAL DONORS ON DEBT RELIEF MEASURES AND THE FAVORABLE DONOR-COUNTRY POSITION ON TERMS ADJUSTMENT HAVE CONVINCED MANY LDCs THAT THEY ARE RIDING A WAVE OF FAVORABLE CHANGES IN CREDITOR POLICIES THAT DOES NOT PRECLUDE FUTURE DEMANDS. EVEN BEFORE THE SESSION, THE NETHERLANDS, SWEDEN, CANADA, AND SWITZERLAND HAD MOVED TO CANCEL DEBTS OWED THEM BY THIS GROUP. THE UNITED KINGDOM AND WEST GERMANY, WHICH WERE ALREADY SERIOUSLY CONSIDERING SOME DEBT MEASURES, AS WELL AS DENMARK AND BELGIUM PLEDGED AT THE MARCH MEETINGS TO MOVE FORWARD ON SELECTIVE READJUSTMENT OF TERMS.

UNCTAD AMBITIONS. THE UNCTAD SECRETARIAT HAS CAMPAIGNED VIGOROUSLY FOR A LARGER PART IN DECISIONS ON WORLD ECONOMIC ISSUES. THE FAILURE OF LAST NOVEMBER'S COMMON FUND TALKS AND OTHER NORTH-SOUTH DISCUSSIONS HAS LED THE SECRETARIAT TO SEEK TO ENHANCE ITS CONCILIATORY ROLE IN SUCH EXCHANGES. AT A PREPARATORY MEETING LAST DECEMBER, UNCTAD OFFICIALS WORKED HARD TO IDENTIFY COMMON POINTS BETWEEN THE DEVELOPED AND DEVELOPING COUNTRIES POSITIONS ON DEBT. UNCTAD SECRETARY GENERAL COREA'S ATTEMPTS TO PERSUADE DISAFFECTED LDCs TO SEDMINISTERS TO THE MARCH MEETING HIGHLIGHTED HIS DESIRE FOR POSITIVE ACCOMPLISHMENTS AT THE DEBT TALKS. THESE EFFORTS AT CONCILIATION MAY HAVE HAD A SUBSTANTIAL INFLUENCE ON SOME OF THE POORER AFRICAN COUNTRIES.

WORLD ECONOMIC CONDITIONS. RENEWED ECONOMIC GROWTH, RELATIVELY STABLE OIL PRICES, AND STRONGER MARKETS FOR SEVERAL IMPORTANT LDC EXPORTS HAVE AT LEAST TEMPORARILY EASED BALANCE-OF-PAYMENTS STRAINS IN MANY NON-OPEC LDCs SINCE THE DEBT RELIEF DEMANDS OF 1976. NONETHELESS, IN VIEW OF THE SUBSTANTIAL DEBT SERVICE PAYMENTS DUE THIS YEAR AND

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NEXT AND AN EXPECTED DETERIORATION OF THE NON-OPEC CURRENT ACCOUNT, THE G-77 WILL HAVE CONSIDERABLE REASON TO RENEW BROADER DEMANDS FOR DEBT RELIEF IN THE NEAR TERM.

OUTLOOK.

6. THIS MONTH'S MEETING LEAVES UNCERTAIN THE FUTURE ROLE OF THE DEBT ISSUE IN THE NORTH-SOUTH DIALOGUE. WHILE THE RESOLUTION OF THE UNCTAD BOARD IS THE FIRST AGREEMENT OF ITS KIND IN THE SHORT HISTORY OF THE NORTH-SOUTH DEBT DEBATE, IT LEAVES UNTOUCHED A VARIETY OF G-77 DEMANDS THAT COULD BE RAISED IN THE FUTURE: (A) RELIEF OF OFFICIAL OBLIGATIONS FOR EACH INTERESTED LDC, (B) REFINANCING OF COMMERCIAL CREDITS, (C) READJUSTMENT OF THE TERMS OF MULTILATERAL LOANS, AND (D) REATION OF AN INTERNATIONAL INSTITUTION SPECIALLY CHARGED WITH OVERSIGHT OF WORK ON DEBT PROBLEMS. REEMERGENCE OF THESE DEMANDS WILL DEPEND ON PROGRESS ON OTHER ISSUES IN THE NORTH-SOUTH DIALOGUE, THE INITIATIVES OF DEVELOPED COUNTRIES ON DEBT RELIEF OUTSIDE THE UNCTAD SETTING, AND WORLD ECONOMIC CONDITIONS AFFECTING LDC CURRENT ACCOUNT POSITIONS. (SECRET NOFORN) E1,2,3 IMPDET WNINTEL.>

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